

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 AID-05 CIAE-00 COME-00 FRB-03
 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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FM AMEMASSY GEORGETOWN
TO SECSTATE WASHDC PRIORITY 5058

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E.O. 11652: N/A
TAGS: ECON, GY
SUBJECT: ECONOMIC ALERT REPORT - GUYANA

REF: STATE 180067; GEORGETOWN 1682, GEORGETOWN 1577, GEORGETOWN 1570,
GEO 1541, GEO 1071, GEO 1031, GEO 923, GEO 857, GEO 828,
 GEO 723, GEO 722, GEO 681, GEO 500, GEO 255

1. IN RESPONSE TO REFTEL REQUEST (STATE 180067), WE HAVE
REFERENCED OUR MAJOR SUBSTANTIVE ECONOMIC REPORTING TO
DATE THIS YEAR WHICH HAS ANALYZED THE STEADY DETERIORATION
OF THIS ECONOMY, NOW REACHING CRISIS PROPORTIONS. SUMMARY
OF CURRENT DIRE SITUATION IS AS FOLLOWS:

A. GUYANA IS CAUGHT IN A SPIRALING LIQUIDITY SQUEEZE
ORIGINATING IN 1976 WHEN PLANNED CAPITAL EXPENDITURES
ON DEVELOPMENT PROJECTS DREW DOWN ON GUYANA'S RESERVES,
AND FALLING SUGAR PRICES, ADVERSE WEATHER, AND ENSUING
PRODUCTION SHORTFALLS IN BAUXITE AND RICE WERE RESPONSIBLE
FOR NET FOREIGN RESERVE DEFICIT OF US\$24 MILLION AT THE
END OF THE YEAR. THOUGH CLOSELY MONITORED IMPORT
RESTRICTIONS WENT INTO EFFECT EARLY IN 1977, WITH
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ANNOUNCED LIMITATION OF US\$308 MILLION FOR 1977,;
LACKLUSTER BAUXITE PRODUCTION AND LOW SUGAR PRICE
(WHICH ACCORDING TO GOG HAS REACHED A POINT BELOW
PRODUCTION COSTS) HAVE RAISED SPECTER OF GOG INSOLVENCY.
RECORD SPRING RICE CROP WAS ONLY BRIGHT SPOT THIS YEAR
BUT REVENUES WILL GO TOWARD IMPORT DEBTS IN
CARIBBEAN, PRIMARILY US\$79 MILLION OIL BILL. CONTINUING

EFFORTS BY GOG TO OBTAIN BALANCE OF PAYMENTS SUPPORT FROM OVERSEAS HAVE PRODUCED NO MAJOR RESULTS TO DATE.

B. OUTLOOK FOR NEXT TWELVE MONTHS: GOG OFFICIALS HAD BEEN SAYING PUBLICLY THAT CURRENT DIFFICULTIES ARE SHORT-TERM AND ECONOMY CAN BOUNCE BACK, PERHAPS BY NEXT YEAR, GIVEN FAIR WEATHER AND TEMPORARY BUDGET SUPPORT TO GET THROUGH THIS YEAR. IT HAS BECOME OBVIOUS THAT THE SITUATION IS MORE CRITICAL AND PUBLIC HAS EVEN BEEN WARNED IN GOVERNMENT PRESS THAT IT MAY BE TWO YEARS BEFORE PROBLEMS ARE SOLVED. FINMIN FRANKLIN HOPE HAS PUT BALANCE OF PAYMENTS GAP FOR 1977 AT US\$50 MILLION. HOPE, HOWEVER, IN MID-JULY ANNOUNCED, IN ATTEMPT TO STAVE OFF ANY BANKRUPTCY PANIC, THAT GOG HAD APPROX. US\$23.5 MILLION RESERVES. BANK OF GUYANA BALANCE SHEET OF JUNE 22, WITH TOTAL FOREIGN ASSETS AT US\$26 MILLION, BEARS THIS OUT, BUT BY JULY 13 ASSETS HAD DROPPED TO 20 MILLION. EMBASSY HAD UNCONFIRMED REPORT LAST WEEK THAT ASSETS HAVE SINCE DECLINED TO US\$6 MILLION. CLEARLY THE GOG IS EXISTING IN A HAND TO MOUTH FASHION, DEFERRING PAYMENTS OF BILLS AND SALARIES, APPORTIONING FOREIGN EXCHANGE FOR THE MOST ESSENTIAL ITEMS AS IT BECOMES AVAILABLE. MEANWHILE, BANKRUPTCIES AND RETRENCHMENT OF WORKERS INCREASE. FURTHER IMPORT CUTBACKS AND AUSTERITY MEASURES WILL BE UNAVOIDABLE UNLESS SOME INFLUX OF FOREIGN EXCHANGE IS FOUND. LIMITED OFFICIAL USE

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C. CRITICAL POINTS:

--UNEMPLOYMENT, WHICH IS ALREADY 20 TO 25 PERCENT, MAY INCREASE EVEN MORE SERIOUSLY IN THE SHORT TERM, RESULTING IN MORE STREET CRIME AND SOCIAL AND POLITICAL UNREST. SIZEABLE LAYOFFS IN NUMBER OF LABOR INTENSIVE MANUFACTURING INDUSTRIES ARE OCCURRING NOW.

--SUGAR WORKERS MAY STRIKE FOR POLITICAL AS WELL AS ECONOMIC REASONS SOON AFTER HARVEST IS UNDERWAY LATER THIS MONTH. IF OTHER STRIKES AND INDUSTRIAL/CONSUMER UNREST OCCUR BY SEPTEMBER AS PREDICTED, GOG'S ONLY RECOURSE MAY BE TO CALL OUT GUYANA DEFENSE FORCE.

--DEVELOPMENT PLANS ARE BEING SHELVED FOR THE TIME BEING. UNLESS FOREIGN EXCHANGE IS OBTAINED, ALL WORK ON THE UPPER MAZARUNI DEVELOPMENT AUTHORITY, THE COUNTRY'S NUMBER ONE PRIORITY, AND OTHER PROJECTS, WILL HAVE TO STOP.

-- EVEN WITH FUTURE RECOVERY IN THE MAJOR FOREIGN EXCHANGE EARNERS (SUGAR, BAUXITE AND RICE) THERE WILL BE FEW, IF ANY, FORESEEABLE RESOURCES TO BE DIRECTED AT THE HEART OF GUYANA'S DIFFICULTIES: DEVELOPMENT AND WIDENING OF THE ECONOMY TO REMOVE DEPENDENCE ON THESE

THREE COMMODITIES WITH THEIR VULNERABILITY TO WEATHER AND
WORLD DEMAND.

--FINALLY, AND PERHAPS CRUCIALLY, AS FOREIGN EXCHANGE HAS
BECOME SCARCE THE IMPORTATION OF SPARE PARTS AND OTHER
ESSENTIALS FOR MAINTENANCE OF PRODUCTIVE EQUIPMENT,
INCLUDING HEAVY MACHINERY, HAS BEEN DEFERRED OR HALTED.
THUS MAINTENANCE OF EQUIPMENT BECOMES ALMOST IMPOSSIBLE
AND A CUMULATIVE DECLINE IN PRODUCTION CAPACITY HAS
OCCURRED AND WILL GET WORSE DURING THE NEXT YEAR. THE
RESULT WILL BE A FURTHER DECLINE IN EARNINGS.
BLACKEN

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